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1991 - 92 MILK AND CREAM QUOTA POLICY PROCEDURES AND GUIDELINES

THIS BOOKLET CONTAINS A NUMBER OF CHANGES PLEASE READ AND KEEP FOR FUTURE REFERENCE

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MILK AND CREAM QUOTA POLICIES PROCEDURES & GUIDELINES

For the 1991 - 92 Quota Year

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Introduction:

This booklet contains the major policies, procedures and guidelines in effect for the 1991-92 dairy year.

This policy was developed by the Alberta Dairy Control Board in consultation with the Alberta Milk Producers' Society, Processors, Policy Committee and individual producers.

This booklet is prepared for information purposes. Assistance in interpretation of specific policies, particularly quota transfers should be obtained from the Alberta Dairy Control Board staff.

Producers are encouraged to stay abreast of the market changes and adjust production or quota accordingly.

Production and policy explanations are published monthly in the Alberta Dairy Producer Newsletter.

Throughout this booklet "Board" means the Alberta Dairy Control Board.

Registration:

Each producer must be registered with the Board. Only one registration number shall be allotted to a production unit even if there are multiple owners.

In the case where the operational unit includes more than one dairy farm, each production unit must be separately registered. Registration forms may be obtained by contacting the Board office.

Producers who fail to register or who fail to supply the required documentation should expect to pay over-quota levy.

Shipping:

Milk Producers are expected to make deliveries every second day. Milk and cream producers are required to make deliveries to the plant to whom they are assigned unless otherwise dealt with by the Board. Industrial milk or cream producers wanting to change plants may do so by applying to the Board giving one month notice. The Board will inform the producers, plants involved and the CDC of the effective date of change.

Cream Producers:

Cream producers must have Market Share Quota to cover deliveries of cream. A producer must make deliveries to the plant to whom he is assigned.

Market Share Quota will be returned to the Provincial Reserve when there has been an **interruption in deliveries for six consecutive months.**

A cream producer may change from cream to milk production. To qualify for this change, cream producers shall:

1. Have farm premises that meet the requirements for fluid milk production and are approved pursuant to regulations under the Dairy Industry Act.
2. Arrange for milk pickup with a milk plant.
3. Apply to the Board for a licence.
4. Be responsible for market share quota to cover production. Market share quota is applicable to milk or cream!

Market Share Quota (MSQ):

MSQ is issued in direct relation to the amount of industrial milk and cream required to meet the Canadian domestic demand for butterfat. A change in demand for dairy products results in an adjustment of total MSQ.

MSQ is expressed in kilograms of butterfat. A notice of each producers' effective MSQ is mailed during September. We recommend producers compare this quota level with expected deliveries and make plans to bring deliveries in line with 100 percent of quota.

To ensure sufficient supply of milk to meet the demand for dairy products a maintenance requirement is applied. A producer must ship at least 90 percent of his allotted quota to retain total MSQ for the next year.

When deliveries are below 90 percent of **effective** MSQ, the 1992-93 quota will be adjusted to 111.1 percent of total deliveries.

Example: Assumes no transfers or changes.

Quota = 1000 kg	Shipments 800 kg
Maintenance	90% of 1000 = 900
Quota Adjustment	800 x 1.111 = 889
Amount of Reduction	1,000 - 889 = 111
1992-93 Quota = Old Annual - Reduction	
1992-93 Quota =	1,000 - 111 = 889

Those producers whose deliveries will exceed available quota are referred to the Quota Exchange section for details on the method of buying MSQ and to the section on Levy Refund Policy for details.

Those producers whose deliveries will be less than 90 percent of quota are referred to the Quota Exchange section for details on methods of selling MSQ.

When a producer discontinues the marketing of industrial milk for **two consecutive months** the MSQ reverts back to the Board.

Fluid Quota:

Fluid Milk Quota is expressed in a specific number of litres of qualifying milk that must be shipped daily. The Board allocates fluid quota in relation to fluid sales.

To ensure adequate supplies of fresh milk at all times a maintenance requirement is applied. A fluid producer must deliver 90 percent of his daily fluid quota to retain his allotment for a subsequent year. The daily average for the four month period of September, October, November and December must equal or exceed 90 percent or it will result in the loss of that portion that is less than 90 percent of quota.

The Board may cancel fluid quota if a producer fails to make deliveries against his fluid quota for a period of **two consecutive weeks** (14 days) or more.

Fluid quota is available to certified industrial producers who wish to purchase it.

Fluid quota is transferable between all registered licenced producers in Alberta.

If an imbalance of production occurs in any specific area the Board may limit movement of Quota or may authorize movement of milk to or from that area.

Transfer Procedures — Fluid and MSQ:

The Dairy Board has simplified the transfer procedures. Fluid milk quota and market share quota will follow the same procedures. **Quota is not tied to cows.** It is the producers responsibility to acquire cows wherever appropriate. The transfer of quota will follow this procedure:

1. An application for the transfer of quota shall be submitted to the Dairy Board on forms supplied by the Board and include all of the information required by the Board, including names of the transferees, signatures of transferees and transferor and a corporate seal if appropriate.
2. Applications to transfer must be received at least two weeks prior to the date of transfer. All transfers become effective on the 1st day of a month following approval of the transfer.
3. Approval of the transfer will be acknowledged to both parties in writing by the Board. **Only after this written notice is received should the transaction be completed.**
4. Producers offering to sell quota through the Board shall state their minimum acceptable price and the volume offered.
5. Producers bidding to buy quota through the Board shall state their maximum acceptable price and the volume desired.
6. Producers advised of successful bids will be required to file with the Dairy Board a certified cheque in the amount of the quota purchased.
7. Producers advised of successful offerings will receive payment from the Provincial Treasurer approximately one month after the transaction is complete.

Guidelines for Transfers

1. **Family Transfers**
   Producers may transfer directly to an immediate family member any amount of quota, fluid and/or market share quota, provided the transferee is not currently a registered producer.
2. **New Producers**
   A new producer may acquire quota, fluid and/or MSQ, directly from any producer. This opportunity exists only once therefore the initial amount transferred should be carefully determined.

3. **Partnership Splits**
   A partner in a partnership may transfer his portion of quota directly to a new location providing he is operating the new unit. If the transferring partner is not planning to operate at a new location, the quota must be offered through the Quota Exchange to all producers.
4. **Corporate Bodies**
   Shareholders in a corporation may transfer their portion of quota directly to a new location providing they are operating the new unit. If the purpose is to reduce the size of the operational unit, the quota must be offered through the Quota Exchange to all producers.
5. **Complete Dispersals**
   A producer who is transferring all of his quota, fluid and market share, may transfer directly to one or more buyers. All transfers must take place on the same date.
6. **Partial Quota Reductions**
   A producer who is reducing his quota allotment must offer it through the Board operated Quota Exchange.
7. **Exceptional Circumstances**
   A producer may apply to the Board for permission to transfer a portion of his quota allotment directly to another producer under exceptional circumstances. In this case producers may be required to appear before the Board to explain the circumstances. The producer must demonstrate how the existing procedure is detrimental to himself and how an exception will benefit the industry.

Quota Exchange:

The Board will operate three Quota Exchanges; one for unused MSQ, one for used MSQ and one for fluid quota.

The Quota Exchange provides a means of transferring quota between producers. It offers a practical means to adjust quota to deliveries or expected deliveries.

Date of Operation:

All bids and offers received by the Dairy Board office prior to 4:30 p.m. on the **22nd** day of the month in which the Exchange is operating will be accepted.

Quota transfers resulting from the Exchange will be effective on the first of the month following. Example, October 22 Exchange will result in the quota becoming available to the buyer on November 1.

The Quota Exchange will operate each month for fluid quota and September through June for MSQ.

Selling on the Exchange:

A producer submits his offer stating the quantity and the minimum price he will accept.

Offers to sell at or below the clearing price will receive the clearing price.

Offers to sell above the clearing price will not be successful and will be returned to the producer to be delivered to in the current year.

Buying on the Exchange:

A producer submits his bid to buy indicating the quantity and the maximum price he is willing to pay.

Bids at or above the clearing price will be successful. The clearing price is the price paid for all quota.

Bids below the clearing price will not be successful.

CAUTION: A producer may be successful in buying 100 percent of his bid. Extremely large bids are of no advantage to the amount of quota allocated, nor will they influence the clearing price.

Limitations:

1) A producer may not sell MSQ acquired in the same quota year. This applies independently to used and unused MSQ. This procedure is deemed necessary to discourage speculation.
2) A producer may sell MSQ and then acquire MSQ in the same quota year. A producer may **not** buy and then sell.

3) A producer may sell unused MSQ and buy used MSQ in the same dairy year. This strategy is particularly appropriate for those who are underdelivering in the current year and expect to increase production in subsequent years.
4) Fluid quota must be offered and bid for in five litre quantities. MSQ may be exchanged in one kg lots.

Submitting a Bid or Offer:

A producer may submit his instructions to offer or bid on the Exchange by any of the following methods:

1) Use C.N.C.P. Telecommunications
   a) Phone 1-800-663-2025 (Toll Free).
   b) Ask the operator to send a telex to the Alberta Dairy Control Board, number 037-42565.
   c) State your message.
   Example: "Sell 100 kg unused MSQ at $1.00"
   (NAME): As registered with the Dairy Control Board and CDC
   (ADDRESS) "ANYWHERE, ALBERTA"
   (CDC #) "000000" found on the Subsidy Statement.
   d) Have the operator repeat the message to ensure accuracy. The producer is responsible for the cost of the telegram.
2) Use a facsimile machine
   a) Write or type out your message complete with your name, address, CDC # and signature.
   b) Forward the document via FAX to 352-1236.
3) Use a letter
   a) Write out your message, complete with name, address, CDC # and signature.
   b) Mail or deliver to the Board office in Wetaskiwin.

CAUTION: A letter which does not reach the Board on time will not be considered nor will the Board assume any responsibility for late arrival.

4) Visit a Dairy Board office
   a) Write out your message and present it to a Board staff member.
   b) Messages of this nature are deemed to be received on the date and time presented at the Board office.

Determining the Clearing Price:

A clearing price is determined after the close of each Exchange. The clearing price is set at the price where the smallest difference exists between the accumulated volume offered for sale and the accumulated (adjusted) bids to buy.

MSQ bids to buy are adjusted to 5 percent of annual MSQ to determine the clearing price only. Fluid bids will be adjusted if price distortions would occur as a result of abnormally large bids.

Allocation:

MSQ will be allocated on the basis of 50 kg to everyone, the remaining available quota will be **in direct proportion to the amount of annual MSQ held.**

Fluid quota will be allocated on the basis of 20 litres to everyone, the remaining available quota will be **in direct proportion to the amount of fluid quota held.**

Allocations will be up to a maximum of a producers' bid.

In cases where insufficient quota exists, the amount allocated will be equal to all producers.

Notification:

All participants in the Exchange will be notified by letter as to the status of their offer or bid after the Exchange clears.

The clearing price is not determined until the next working day after the Exchange closes, therefore, **phone calls requesting information should be delayed a few days so we may provide more complete information.**

The results of the Exchange will be published in the Alberta Dairy Producer Newsletter.

Payment:

Producers who were successful buyers are required to make payment by way of a certified cheque, money order or bank draft payable to the Alberta Dairy Control Board. Payment is due upon notification. Those producers failing to pay for quota by the specified monthly deadline will forfeit the right to participate in the Exchange for 12 months.

Successful sellers will receive payment directly from the Provincial Treasurer. The process of collecting payments from buyers, depositing the same, issuing payment and mailing time requires approximately six weeks from the date of the Exchange.

"FEDERAL DAIRY POLICY"

The total Market Share Quota level may be altered during the year by the Canadian Milk Supply Management Committee to keep production in line with demand.

Federal Subsidy:

The subsidy on qualifying shipments of industrial milk and cream is $1.675 per kilogram of butterfat or $6.03 per hectolitre of milk is paid by the Canadian Dairy Commission (CDC) in Ottawa. To qualify for the federal subsidy, a producer must be registered with the CDC and the Board and must have MSQ. Subsidy is paid on deliveries covered by MSQ and only up to approximately 97 percent of the MSQ.

There is no minimum delivery requirement to qualify for subsidy, however, there is a maximum subsidy entitlement limit set by the CDC for milk and cream deliveries. Producers may receive subsidy on qualifying deliveries up to 18,000 kilograms of butterfat in one dairy year. Two or more milk or cream producers jointly owning a dairy farm, having a substantial financial interest and actively engaged in the dairying operation, may qualify for subsidy eligibility over the normal maximum for individual operators. The total subsidy entitlement for partnerships or joint operations cannot exceed three times the individual maximum subsidy entitlement which may be 54,000 (3x18,000) kilograms for three partners or 36,000 (2x18,000) kilograms for two partners.

Maximum subsidy eligibility for fluid milk producers is the same as for industrial milk and cream producers except that subsidy is not paid on milk used in the fluid market. Subsidy is paid on the excess milk which is shown on the monthly fluid milk statement forwarded to all producers by fluid milk plants along with payment for milk deliveries.

To qualify initially for the maximum entitlement as a partnership or limited company (limit to three subsidy entitlements maximum), an application for maximum subsidy eligibility must be completed, documented and approved by the CDC. Application forms and details of the requirements may be obtained from the Board office in Wetaskiwin. Those producers already approved by the CDC need not request application forms, as the CDC will mail an application for renewal directly to producers each quota year.

Levies:

A three-tiered levy system will be implemented for the 1991-92 dairy year. Individual producers will be able to decide the level of production and levy rate that is most appropriate to their individual farm operation.

1. The In-Quota Levy

   The in-quota levy will be applied to each kilogram of butterfat from industrial milk producers and on excess milk from fluid producers up to 97 percent of effective MSQ.

2. The Sleeve Levy

   The sleeve levy will be applied on each kilogram of butterfat from industrial milk producers and on excess milk from fluid producers delivered between 97 percent and 100 percent of allotted MSQ. The sleeve levy is used to pay the cost of exporting products manufactured from milk designated specifically for export.

3. The Over-Quota Levy

   The over-quota levy will be applied on each kilogram of butterfat delivered in excess of 100 percent of MSQ or without MSQ. The over-quota levy is applied to cream producers as well as fluid "excess" and industrial milk deliveries.

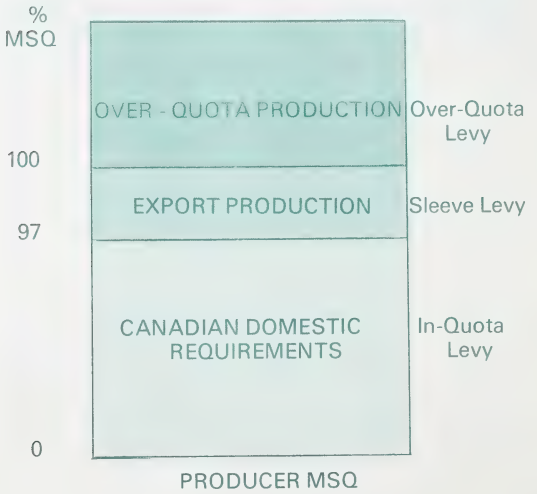
   The over-quota levy is used to pay the cost of exporting skim milk powder and butter that is excess to domestic requirements

4. Skim-off Levy

   All class 1 milk is assessed a skim-off levy. In Alberta this levy is not collected from fluid milk producers, therefore the CDC is collecting it by making a deduction from the subsidy payable to fluid producers.

The levy rates have not been set at the time of printing. They will be published in the "Alberta Dairy Producers" newsletter and are reported on producers' milk or cream statements.

An individual producer's MSQ and corresponding levies is graphically illustrated below:



Over-Quota Levy Refunds

To encourage production to 100 percent of allotted MSQ, over-quota levies collected in excess of that required by the Canadian Dairy Commission will be refunded by way of reduced in-quota levies in the subsequent dairy year.

Producers will not receive refunds on over-quota production. The monies normally refunded as over-quota levy refunds will be used to reduce the in-quota levy in the next dairy year.

This procedure will ensure Alberta dairy producers receive the benefit of the refunds while sending a clear message that overproduction is not in the best interest of individual producers, the provincial or national dairy industry.

This is a new procedure. All producers are encouraged to familiarize themselves with the implications of this change.

Appeal Procedures:

Producers who have a unique situation that the Board policy does not address have the right to appeal directly to the Board. The Board has indicated that it will review each appeal and will judge each case upon its own merits.

A catastrophe is grounds for an appeal to the Board. A catastrophe includes severe illness or death of the quota holder, sudden death of a significant portion of the producing herd, destruction of the production facilities, severe infection or an uncontrollable disease which requires slaughter by health authorities.

Producers must appeal in writing. The appeal must state the facts surrounding the case. If it involves animal health issues, a veterinarian's supporting letter should form part of the appeal, in other cases third party documentation is an important addition.

In the case of fluid milk quota, the appeal will first be reviewed by a quota committee consisting of producer and Dairy Board representatives. This committee will make its recommendations to the Dairy Board who will render the final decision.

Producers who expect their production to fall below the 90 percent maintenance level for reasons of feeding, breeding, or other management related issues, are encouraged to sell that portion not required and repurchase it as needed.

In every appeal the evidence supplied to the Board is critical to obtaining the best possible decision. It is up to the person appealing to ensure the complete facts are presented.

Appeals should be directed to the Dairy Board office in Wetaskiwin. Persons may be requested to appear before the Board to state their position, however, in these cases that invitation will be extended after the written appeal has been received.

Power of Attorney:

The Board provides a Power of Attorney document to lenders to be used in higher risk loans whereby some security on the milk quota is deemed appropriate.

The lender may not seize the quota as it remains an asset of the crown. However, the Power of Attorney document does give the lender the right to receive any value there may be in the quota at the time of transfer.

When a producer, who has signed a Power of Attorney, offers quota for sale, it is recommended procedure for the purchaser to place with the Dairy Board a certified cheque payable to the seller which in turn will be deposited by the lender against outstanding loans of the seller. In this manner the lender is assured of his security, the buyer is assured the quota will be transferred and the seller is assured the funds will be used to retire indebtedness against his quota.

This is a strong legal document. Producers are encouraged to consult their legal or accounting professionals prior to signing any such document.

APPENDIX (A)

Calculating market share quota requirements

Determine the MSQ required for fluid quota deliveries

Fluid Quota Deliveries *(Fluid quota x number of days)*			_____L
Class 1 Litres *(Fluid quota x class 1 utilization %)*	_____		
Exclusion from MSQ *(Class 1 Litres x exclusion factor)**	_____		
Total fluid quota deliveries not requiring MSQ	_____		(_____)L
Fluid requiring MSQ *(Fluid quota deliveries-total not requiring MSQ)*			_____L
MSQ required for fluid *(Fluid requiring MSQ x butterfat Test)***		(A)	_____kg

*1991 exclusion factor 5.2% * *3.6 kg/hl equals .036 kg/L

Determine the MSQ required for deliveries over fluid quota.

Deliveries above fluid quota *(Deliveries-fluid quota) x number of days)*		_____L
MSQ required for over fluid quota *Deliveries above fluid quota x butterfat test*	(B)	_____kg

Determine total MSQ required

MSQ required for fluid quota (A)	_____kg
MSQ required for over fluid quota (B)	_____kg
Total MSQ required (A + B)	_____kg

NOTE: All calculations must use similar time frames. Fluid quota is expressed in litres per day while MSQ is expressed in kilograms of butterfat per year. If calculations are done on a monthly basis, it is necessary to add 12 monthly totals to obtain the annual MSQ required.

For additional information please contact any of the following Board offices:

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